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Date 3 JAN 91 HRP 89-2

REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE U.S.

GENERAL

1. Political. Since our previous report (CIA 1, 26 September 1947) the most significant development has been the rapid deterioration of the Communist (Soviet) political position in Western Europe. This process, which apparently began with the announcement of the "Truman Doctrine," has been greatly accelerated by Soviet counter-measures, particularly by the establishment of the Cominform. The decision to establish that agency itself reflected an apprehensive realization that the European recovery program was about to become an effective reality and a corresponding recognition that the Communist political program in Western Europe had already failed. The Cominform, with its clear identification of Communist parties as agents of the Kremlin, its proscription of the non-Communist Left, and its threat to the best hope of European recovery, sacrificed whatever political prospects the Communist parties yet had. The general popular reaction is reflected in recent elections in Rome, France, Denmark, and Norway, all of which were decidedly anti-Communist in their implications.

Accepting political isolation as an advantage, the Communists have now abandoned the "democratic front" and "socialist unity" techniques and have adopted a "purer" concept of their mission as the only worthy representatives and leaders of the "masses." In the countries of Eastern Europe, which they control, the result has been an acceleration of the evolution from the "democratic" coalition toward an absolute Communistic totalitarianism. In Western Europe, where they are not in power, the application is a reversion toward action by a hard core of militants to create a "revolutionary situation."

2. Economic. The economic situation has not changed materially. Acute shortages continue in many commodities such as wheat, coal,

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fertilizers, agricultural and mining machinery, and transportation equipment. The foreign exchange holdings, particularly of dollars, by deficit countries, have been further depleted, in some countries such as France and Italy to almost zero, in others such as Brazil, Canada, and Belgium to very low levels. These conditions--world shortages of essential commodities and imbalance among the countries of the world in foreign exchange holdings and other financial resources-- are likely to change only very gradually.

The world food situation is not likely to improve fundamentally until the world has experienced two good crop years, particularly in bread grains. As a matter of fact, the full impact of present shortages has not yet been fully felt. In many countries it may be necessary this winter to lower food rations still further, and it is hardly likely that there will be any improvement in any country in food consumption before next year.

In Europe there has been a slight improvement in the production of coal, fertilizer, and some industrial products. During the past two months there have also been moderately successful attempts in various countries to stabilize the internal fiscal, financial and monetary situation, such as the recent halting of the price rise in Italy, steps toward balancing the budget in France, and the temporary stabilization of the exchange rate of the Chinese Yuan. In general, however, no improvement appears to be in sight in general economic conditions.

The aggregate financial assistance which appears likely to be made available to deficit countries during the coming year and possibly for a longer period may be expected to prevent further serious and widespread deterioration in World economic conditions. It is not likely, however, to effect an immediate improvement in such conditions. In the absence of far-reaching and World-wide developments, such as one or two years of widespread and abundant crops or the relaxation in intense political feeling, improvement in the World economic conditions is likely to be limited, halting, and uncertain.

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PARTICULAR SITUATIONS IN EUROPE

4. The United Kingdom. The sharp reverse suffered by Labor in the British municipal elections was not a popular repudiation of the Labor goals endorsed in the general election of 1945, but rather a protest against increasing austerity and against Labor's inept administration and ineffectual leadership. No change of government is in prospect. Neither party really desires a general election at this time: the Laborites in view of the adverse trend, the Conservatives because they would prefer to avoid the responsibilities of office during the coming winter of discontent. Continued expressions of popular dissatisfaction could, however, force the Government to call a disadvantageous general election in 1948. Mindful of this possibility, the Government may well strive to recover public confidence by putting its administrative house in order and by moderating its reform program to give priority to the immediate requirements of economic recovery.

5. France. The significant developments in France have been the victory of De Gaulle in the municipal elections, the post-election reorientation of the Communist Party, and ensuing defections from that Party. De Gaulle's electoral success is attributable to a combination of resurgent anti-Communism with lack of confidence in the ability of any centrist coalition to cope with the Communist menace. It is Thorez himself, however, who, in a public adherence to the strict Cominform line, has destroyed whatever political prospects the Communist Party yet had and has compromised Communist control of the Confederation of Labor (CGT). The Thorez declaration of French Communist policy has accelerated defections from the Party, primarily to the Socialists, and from the CGT to independent unions, and has created dissension within both the Party and the CGT.

De Gaulle would defer his own accession to power until the spring, avoiding responsibility for the privations which the French must endure this winter and relying on such hardships further to discredit the Socialist administration. The Socialists, meanwhile, are striving to rally the center against both Communism and Gaullism. De Gaulle's success depends upon a continuing sense of crisis, a continuing fear of Communism and lack of confidence in the administration. If, during the winter, U.S. interim aid is adequate to alleviate

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distress, and by spring, the Communist danger has receded and there is fair prospect of an effective recovery program, the conditions upon which De Gaulle depends would not exist and he would have lost his raison d'être. Thus the center coalition under Socialist leadership may yet ride out the storm. In any case, the danger of a Communist accession to power in France appears to have been eliminated.

6. Italy. The recent municipal election in Rome also marks a resurgence of anti-Communist forces. Thus far, however, the Italian Communists have avoided a forthright declaration of policy, like that of Thorez in France, and the consequences thereof. They and the Christian Democrats remain the stable factors in an otherwise fluid political situation. It is now apparent that the only hope of uniting the non-Communist Left depends upon the Socialist Party's adoption of an independent policy. The rank and file of the Party desires such a development, but Nenni retains control of the Party organization and remains firm in his alliance with Communism. On the Right, the Uomo Qualunque has collapsed and the question is what will become of its popular following. While some tend to align themselves with the Christian Democrats, many are adhering to the several new, definitely neo-Fascist movements which are rapidly gaining strength but are so far disunited. In general, the trend favors the De Gasperi Government, which, if it can survive the winter with credit, will probably receive strong popular support at the polls in the spring.

Another favorable sign in Italy is a decline in wholesale prices resulting primarily from credit restrictions which compelled speculators to release their hoardings. This trend cannot be maintained unless substantial future imports are assured through U.S. aid, but it provides a temporary easement and should enhance the reputation of the government.

7. Germany. Preliminary consultations indicate that in the forthcoming session of the C.F.M., as at Moscow, the U.S.S.R. will advocate the immediate establishment of a highly centralized German national government susceptible to Communist penetration and permitting a Soviet-Communist voice in the administration of such vital areas of Western Germany as the Ruhr. Meanwhile there is speculation as to

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what caused the U.S.S.R. will pursue if the C.F.M. fails to reach agreement. It is at least possible that, as with respect to Korea, the U.S.S.R. could propose mutual withdrawal from Germany in order to break the impasse and permit the Germans to solve the problem themselves. The probable rejection of such a proposal would not diminish its propaganda effect in Germany, where sentiment for national unity is traditionally strong. The status quo prevailing, the U.S.S.R. would almost certainly set up an overall German government for the Soviet Zone, being careful to represent it as the nucleus of a future national government rather than the beginning of a Soviet republic, in order to keep in character as the sole champion of German national unity and independence. A reform of the political parties in the Soviet Zone is also in prospect, including the liquidation of the troublesome Liberal and Christian parties to form a bourgeois "unity" party on the analogy of the S.E.D. The general trend in Europe being as it is, and the S.E.D. having proved unsatisfactory as a device for extending Communist control, there will be less emphasis on "socialist unity" (i.e., the advancement of Communism) and more on a wise nationalism (i.e., Russo-German collaboration in the Bismarckian tradition). Von Paulus, Seyditz, and others of the "Free German Committee" will probably be brought out to dignify and facilitate this new appeal to German traditionalism.

8. The Satellite States. In Eastern Europe the satellite governments are proceeding apace to destroy not only the opposition parties but also those which have collaborated with the Communists in the several national fronts. An evolution toward Communist totalitarianism in the Satellite States was to have been anticipated, but the pace appears to have been accelerated sharply in almost panicky consideration of the persistence of popular disaffection in Eastern Europe and the political trend in the West.

THE NEAR AND MIDDLE EAST

9. Greece. The Communist-led guerrillas, with Soviet superior direction and increased Satellite material support, are stronger and more aggressive than ever. The establishment of a Communist civil

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regime in northern Greece is apparently imminent. Pacification of the country is prerequisite to its rehabilitation and is more urgently necessary to avert a political and military disaster.

10. Palestine. The Soviet proposals regarding Palestine are evidently designed to bring about the earliest possible British withdrawal and to gain for the U.S.S.R. participation with veto power in the subsequent disposition of the country. The Soviet use of language reminiscent of the Moscow Declaration regarding Korea forebodes a prolonged impasse, with consequent opportunities for Soviet exploitation of local dissatisfactions, unless other powers submit to terms which would in effect surrender Palestine to the U.S.S.R. as a base for Soviet-Communist operations in the Levant. Arab and Jewish mutual apprehensions regarding Soviet intrusion into the situation may possibly afford a basis for rapprochement, but it is more likely that popular passions have now been too greatly aroused to permit a compromise settlement. It remains certain, however, that the imposition of partition would provoke an Arab armed resistance of serious proportions, endangering stability in the strategically vital Arab world.

11. Iran. Having rejected the proposed Soviet oil concession, Iran claims equal consideration with Greece and Turkey in the allotment of U.S. aid. The outward Soviet reaction has been deceptively mild. It may be presumed that the U.S.S.R., while refraining from open retaliation, will pursue relentlessly subversive operations designed to exploit the backwardness and disunity of Iran and to bring that country eventually under Soviet control.

12. India. Exacerbated by the conflict in Kashmir, the already strained relations between India and Pakistan have degenerated into a contest in vituperation. Greater statesmanship than is now in evidence will be required to solve the formidable problems confronting the two new dominions. An early decision in Kashmir is not to be expected. Whatever the merits and outcome of that conflict, its prolongation involves danger of both direct hostilities between India and Pakistan and a resumption of communal massacres in both dominions. So far, however, the U.S.S.R. appears not to have taken an interest in the quaz)-anarchy prevailing in the former Empire.

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THE FAR EAST

13. China. The Chinese Communists retain the strategic initiative. Their sixth offensive in Manchuria, although it failed to dislodge the Nationalists from their isolated strongholds (Kirin, Changchun, and Sipinghai), did accomplish a heavy attrition of Nationalist strength. Meanwhile the Communists have penetrated into the area between the Lung-hai Railway and the Yangtze River, which had been stripped of defensive forces in order to support Nationalist operations in Shantung and Manchuria. The probable expansion of Communist control in this area will tend to isolate Nationalist forces attempting to hold the line of the Lung-hai Railway, as those in North China and Manchuria have been isolated. This strategy of pocketing the 89 effective divisions of the National Army and subjecting them to attrition has already reduced their number by one third and nullified their advances. With its effective forces committed in the North, the National Government has none with which to oppose further Communist penetration southward.

The continuing deterioration of the military situation, inevitably accompanied by political and economic deterioration, may lead within a year to decisive Communist military successes and to the actual disintegration of the National Government. The consequences of such an event are incalculable, but it is unlikely that the consolidation of a Communist China could be accomplished within a generation.

The U.S.S.R. is unlikely to assume a more active role in Chinese affairs unless U.S. support of the National Government threatens to reverse the current trend.

14. Korea. The Soviet attitude toward a United Nations solution of the Korean problem renders impossible the unification of that country under a truly representative government. Moreover, the U.S.S.R. cannot be expected to recognize the representative character of any regime established in South Korea under United Nations auspices. The U.S.S.R. will make every effort to discredit such a regime as a device of Yankee imperialism and an obstacle to Korean democracy, unity, and independence.

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The immediate Soviet objective is to counsel the United States to withdraw from Korea and further Soviet action with that specific purpose must be anticipated. It may well be that the U.S.S.R., acting on its own proposal, will itself withdraw from North Korea in the spring, relying upon its puppet regime and the North Korean Peoples Army to continue to represent its interests. Korean unity and Korean sentiment regarding unity and independence are such that, in the event of a Soviet withdrawal, the South Koreans themselves would subject the United States to such pressure to withdraw also as might render the position politically untenable. A U.S. withdrawal would be followed by unification, and eventually, of course, by Soviet domination of the entire country through Korean Communist penetration and control.

LATIN AMERICA

16. Brazil has broken relations with the U.S.S.R., and Chile with the U.S.S.R., Yugoslavia, and Czechoslovakia. Otherwise there has been no significant change in the situation. The Chilean coal strike was probably not intended by the Communists to be a decisive trial of strength, as represented by the Chilean Government. Its outcome is therefore not a valid measure of the Communists' capabilities for disrupting essential industries in an all out effort.

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